



The World Bank

Independent Evaluation Group

February 2, 2006

Contact: Pierre-Joseph Kingbo

Tel. (1-202) 473-1852

Email: pkingbo@worldbank.org

EVALUATING WORLD BANK SUPPORT FOR PENSION REFORMS: AFFORDABILITY AND COVERAGE REMAIN CENTER STAGE

Washington, February 2, 2006 – The Independent Evaluation Group (IEG) of the World Bank today released the report *Pension Reform and the Development of Pension Systems: An Evaluation of World Bank Assistance*. The report assesses the relevance of the Bank's pension reform strategy, the quality of Bank support, and the resulting development outcomes between 1984 and 2004. The first comprehensive, independent evaluation of the Bank's involvement in pension reform, the report has important messages and broad relevance for practitioners and policymakers.

Formal pension systems are a crucial tool in reducing poverty among the elderly. Over the last two decades, many pension systems were at risk of failure, because of aging populations, poor administration, and over-generous benefits. As a result, pensions became a source of macroeconomic instability and an ineffective and inequitable provider of retirement income, lending urgency to pension reform.

The Bank's strategy recommended the establishment of flexible, three-pillar pension systems for income support: a publicly managed, tax-financed pension plan; a mandatory, privately funded scheme; and voluntary, privately funded retirement savings. The strategy also stipulated that certain pre-conditions--including sound macroeconomic policies and an adequate financial sector--be in place while starting a funded scheme.

Since 1984, the Bank has assisted 68 countries with reform of their pension systems, with a strong concentration in the Europe and Central Asia and the Latin America and Caribbean Region. Over this period, the Bank provided \$5.4 billion in pension-specific lending through more than 200 loans and credits and issued over 350 papers and publications on pension reform. There was relatively more assistance for multi-pillar reformers.

Main Findings

Overall, while individual project outcomes were found to be largely satisfactory, fundamental policy issues of old age poverty and inadequate coverage remain unresolved.

1. The Bank's strategy on pension reform was judged relevant to reducing poverty among the aged. The strategy was backed up by extensive research and analytical work, particularly on fiscal issues and private pension regulation. However, there was insufficient attention on analyzing the living conditions of the aged and exploring options for expanding the safety net for those outside of the formal pension system.

2. The support for pension reforms varied according to country conditions, without following a “one-size-fits-all” approach. In countries in which the initial conditions for establishing a multi-pillar system were not in place, most often there was support for ‘pay-as-you-go’ (PAYG) reforms. Nonetheless, the evaluation found a number of instances, where the Bank supported multi-pillar reforms even though there were clear weaknesses in the country’s underlying economic and financial structure.
3. Reforms often contributed to fiscal sustainability, encouraged the entry of private pension plans, and helped improve regulatory structures to prevent fraud and abuse. However, contrary to expectations, in many countries with multi-pillar systems, pension funds remain poorly diversified and pension coverage has not increased. Secondary objectives of introducing funded pension schemes – to increase savings, develop capital markets, and improve labor market flexibility – remain largely unrealized.
4. The Bank focused on institutional strengthening and capacity building, but it underestimated institutional and capacity weaknesses which hindered the effectiveness of pension reforms.
5. Bank involvement in pension reform was often prompted by concerns about fiscal sustainability. Yet, in doing so, there often was a neglect of the primary goal of a pension system: to reduce poverty and provide retirement income *within* a fiscal constraint.

Recommendations

To ensure well-tailored support and consistent policy advice, the report makes a case for guidelines for the development of pension operations. It also makes three key recommendations for greater effectiveness.

1. There needs to be greater attention paid to the preconditions needed to support multi-pillar reform. Equally, the benefits of the secondary objectives of pension reform ought not to be oversold.
2. The Bank needs to provide increased support for building client capacity to implement pension reforms.
3. The Bank would want to undertake additional research on high priority issues, such as income of the aged, the impact of corruption and governance on the feasibility of effective pension regulation, the design of non-contributory systems, and ways in which to foster capital market development and competition.

The report is posted on the Independent Evaluation Group website: <http://www.worldbank.org/ieg>. For more information or to obtain a hardcopy of the report, please contact Pierre-Joseph Kingbo at 202-473-1852.

About the World Bank’s Independent Evaluation Group

The Independent Evaluation Group (IEG) is an independent unit within the World Bank; it reports directly to the Bank's Board of Executive Directors. IEG assesses what works, and what does not, and the lasting contribution of the Bank to a country's overall development. The goals of evaluation are to learn from experience, to provide an objective basis for assessing the results of the Bank's work, and to provide accountability in the achievement of its objectives. It also improves Bank work by identifying and disseminating the lessons learned from experience and by framing recommendations drawn from evaluation findings.